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C O N F I D E N T I A L SECTION 01 OF 02 DHAKA 001083

SIPDIS

STATE FOR SCA/INSB AND SCA/RA

STATE PASS TO USTDA FOR JACOB FLEWELLING

STATE PASS TO FAA FOR THOMAS NASKOVIAK

NEW DELHI PASS TO FAA AARON WILKINS

BANGKOK FOR USTDA MARK DUNN AND TSA ANJUM AGARWALA

SINGAPORE FOR FAA

MONTREAL FOR FAA

E.O. 12958: DECL: 12/01/2014

TAGS: FAIR ECON ETRD BEXP BG

SUBJECT: BIMAN AIRLINES PURSUING U.S. FLIGHTS AND BOEING PURCHASE

REF: A. DHAKA 1023

1B. DHAKA 894

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Classified By: CDA a.i. Nicholas Dean, Reasons 1.4 (b) and (d)

11. (C) SUMMARY: Bangladesh's national airlines, Biman, is poised to begin making payments in its \$1.2 billion deal with Boeing and resume U.S. flights with leased aircraft in December 2009. Biman is working with a bank consortium to finalize pre-delivery financing and ensure expedited delivery of its first two Boeing 777s in 2011. The company plans to wet-lease two 777s to resume U.S. flights to JFK airport in December. The FAA has approved landing rights for these flights and is offering to help civil aviation authorities improve aviation safety. As these pieces are coming together to support Boeing's deal, several hurdles remain to confirm financing, leasing arrangements and resumption of U.S. flights. END SUMMARY.

SLOW PROGRESS ON PRE-DELIVERY FINANCING

12. (C) In October, Biman signed an amendment to its \$1.2 billion Boeing deal to confirm the expedited delivery of two planes in 2011. Under the amended agreement, Biman committed to make a \$117 million pre-delivery payment in October. After Biman missed this deadline, Boeing representatives told Econoff they could be flexible on the payment date, but they would press for Biman to make the payment by mid-December to ensure that the first plane deliveries would not be delayed. In October, Biman designated a local bank, Eastern Bank Limited (EBL), to lead a bank consortium providing pre-delivery financing. Since choosing EBL, Biman has worked slowly to prepare financial projections and other documentation required for financing.

13. (C) The Bangladesh Bank (BB) has agreed to deposit funds with members of the banking consortium to be used for pre-delivery financing. Bangladesh Bank Deputy Governor Ziaul Siddiqui confirmed to Econoff and Boeing representatives that the Bank would maintain these deposits until delivery financing replaces PDP financing in 2011. Although the Bank is prohibited from directly financing "quasi-fiscal" transactions such as Biman's airplane procurement, he said "the decision has been made" to

indirectly support Biman's transaction with Boeing.

SOVEREIGN GUARANTEE STILL PENDING

¶4. (C) To secure pre-delivery financing, Biman also still needs the Finance Ministry to approve a sovereign guarantee. Although some GOB officials have resisted providing the guarantee, the Prime Minister has assured Boeing and the Ambassador that the GOB will provide whatever assistance is required to support the deal.

BIMAN LEASING PLANES FOR JFK FLIGHTS

¶5. (C) On November 10, Biman signed an agreement with Euro-Atlantic to "wet-lease" (including operation and maintenance) one Boeing 777 for one year in order to resume flights to JFK in December. Euro-Atlantic has also signed a letter of intent to lease a second Boeing 777 to Biman under similar conditions. These leasing arrangements were delayed in August when Biman acceded to pressure to cancel a tender that Euro-Atlantic had won. Since the delay forced Biman to postpone the resumption of U.S. flights, Biman risked losing its JFK runway and gate access for one year. As a result, the company reversed its decision and restored the Euro-Atlantic winning offer to lease two planes.

¶6. (C) According to Boeing, Biman and Euro-Atlantic agreed on terms for a three-year "dry-lease" (without operation and maintenance) after the wet-lease expires. However, Euro-Atlantic has been reluctant to sign the dry-lease. This has raised suspicions at Biman and within the GOB that Euro-Atlantic wants to hold out for more favorable leasing terms when the aircraft market improves in 2010. To ensure

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that Euro-Atlantic will follow through on its commitment to provide two planes under one-year and three-year wet/dry leases, Biman inserted an escape clause in its first lease allowing it to cancel the lease if Euro-Atlantic does not provide a second plane by December 15 and sign the dry-lease within 3 months. (Note: During a November 5 meeting with the Ambassador, the Prime Minister signaled that failure to conclude Biman's leasing deal for U.S. flights could jeopardize its purchase of Boeings (Ref A). Although Boeing is not a party to the lease, it helped to facilitate the deal and as a result, the GOB may hold Boeing responsible if the remaining leases are not signed. End Note.)

BOEING HELPING REVITALIZE BIMAN

¶7. (U) In addition to helping secure financing for Biman's plane procurement, Boeing is helping to modernize the airline's information technology infrastructure and provide training to Biman personnel. The IT modernization is part of an overall effort revitalize the airline, whose share of the Bangladesh aviation market has fallen from 58 percent in 1996 to 26 percent.

FAA APPROVES JFK LANDING RIGHTS: DOT APPROVAL PENDING

¶8. (U) The Federal Aviation Administration approved runway slots for Biman to resume bi-weekly flights to JFK in November 2009. Biman still needs to obtain approval of the U.S. Department of Transportation for Economic Authority to route the new flights through Manchester, UK. Since the FAA ranks Bangladesh as a Category 2 country for aviation safety, Biman is authorized to resume the JFK flights through Brussels that were discontinued in 2007.

FAA ENGAGEMENT ON AVIATION SAFETY

¶9. (U) The FAA is preparing a draft Memorandum of Agreement

(MoA) with the Civil Aviation Authority of Bangladesh (CAAB) to provide technical assistance on aviation safety oversight in order to support the CAAB in seeking Category 1 status. Following an August 2009 visit by the FAA Senior Advisor for South Asia (ref B), the CAAB Chairman met with FAA staff in Japan in October 2009 to discuss cooperation on aviation safety issues. The FAA agreed to propose a draft MoA for technical assistance, beginning with a GOB-funded technical assessment by the FAA. To enable Biman to continue flights with dry-leased planes or with the first two Boeing 777-300ER planes it will acquire in 2011, the CAAB will need to regain Cat 1 status.

COMMENT

¶10. (C) Although Biman's Boeing deal still appears to be on track, Boeing has expressed impatience with Biman's gradual efforts to finalize pre-delivery financing and the GOB's failure to approve a sovereign guarantee. While the Prime Minister has expressed consistent support for the deal, other GOB officials have continued to undermine Boeing by spreading misinformation about Biman's leasing negotiations (ref A). To ensure that Boeing's 2011 expedited delivery dates do not slip, Biman needs to finalize pre-delivery financing and leasing arrangements by mid-December. To support Biman's longer term plans, the CAAB needs to finalize its agreement for FAA assistance and conduct a technical assessment. Post will continue to support progress on the Boeing sale and leasing deal while facilitating FAA engagement.

DEAN